

PUBLIC ADMINISTRATION: - REPORTS - MONTHLY

Jidda, Saudi Arabia

MEMORANDUM

November 25, 1952

TO: Mr. J. A. Dunaway

FROM: J. A. Stacy, Budget Advisor

RE: Monthly Operations Report - November, 1952

(A.) A letter requesting permission for Mr. Affifi, Accountant-Translator, to go to Mecca to make a study of accounting operations and systems on behalf of this Division has been prepared and is to be handed in person to the Minister of Finance as soon as an appointment can be made.

Much time has been spent in analyzing the probable and potential results to be expected from the Royal Order #140, promulgated by H.R.H. the Crown Prince, as it regards improvement of budgetary control. It is evident that several of the recommendations of the Budget Advisor have been given at least superficial acceptance, particularly with respect to restrictions on hiring, recapture of unexpended balances and improvement of the calibre of accounting staffs of the various ministries and departments.

(B.) There have been a series of official releases specifically listing proposed Public Works Projects in all fields which are most useful in studying SAG budgets. The Order #140 referred to above also included a general reorganization of the Finance Ministry, setting up a new Economic Council, a Department of Oil Affairs, (formerly a part of the Department of Mines and Companies); a new Haj Department, and several other changes. The working out of these developments will deserve careful attention by the Budget Advisor for their effect upon both the planning and controlling aspects of the SAG budget.

(C.) No developments.

(D.) No developments.

(E.) See only remarks in "A" re Mr. Affifi.

RESTRICTED

As of February 16, I was appointed Acting Customs and Tariff Advisor with the official addition of many new responsibilities. As a result of this change in status, I have worked out a general program for my future work including both the customs and tariff fields.

I have secured the agreement of the various powers within the Customs to come together for the purpose of jointly working out improvements in Customs administration. This has been somewhat delicate by reason of the appointment of Shaikh Zaki Omar to the position of Inspector General for Customs, a position outranking that of Director General of Customs. Agreement was reached as to a system of issuing instructions from the Director General as well as the field of jurisdiction which such instructions could cover.

The form and content of a new Bill of Entry to take place of the Visitors' Book has been agreed to by you and the Customs officials several months ago. The Customs officials have shown great interest in proposals for the actual institution of the new procedure brought about by the use of the Bill of Entry. Much of my time during the reporting period has been spent in formulating the instructions for filling in the Bill of Entry, regulations regarding the use of the Bill of Entry and instructions to each employee who must handle the Bill of Entry. Completion of this work will make possible the introduction of the Bill of Entry at the Jidda Port. As time proceeds this new document will be introduced at other ports until its use is general throughout the country.

Two years ago, the Customs officials presented to the Minister of Finance a set of new customs regulations. Since the Tariff Law adopted by Saudi Arabia on November 17, 1952, provides for certain basic changes in Customs procedures, the Customs officials have been revising their proposed regulations to conform to the new Tariff Law. They have agreed to present these regulations to me for study and consultation in the near future, prior to presenting them to the Minister of Finance for his approval.

During the reporting period I was asked many times whether TCA was going to furnish a statistician to assist in revising the import - export statistical system. I think that everything possible should be done to secure the addition of a qualified statistician to the TCA staff.

Robert B. Kennedy
Acting Customs and Tariff Advisor

RESTRICTED

MONTHLY REPORTS ON

BUDGET

Jidda, Saudi Arabia

MEMORANDUM

November 25, 1952

TO: Mr. J. A. Dunaway

FROM: J. A. Stacy, Budget Advisor

RE: Monthly Operations Report - November, 1952

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(D.) No developments.

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Jidda, Saudi Arabia

October 23, 1952

MEMORANDUM TO: John A. Dunaway

FROM: John A. Stacy, Budget Advisor

RE: Monthly Operations Report--October, 1952

a. With the arrival of Mr. Mousa Affifi, Accountant-Translator, much of the backlog of translation work necessary to this activity has been dealt with. The Accounting Regulations and Forms have been translated and are now under study to determine most favorable lines for recommending changes. The system is completely lacking in procedures for recording commitments made against available funds, being entirely based on expenses actually paid irrespective of time of obligation. Perhaps this area should be the first approached for improvement.

Additional work directed toward the creation of a meaningful plan for the development and control of the Public Works Program of Saudi Arabia has been executed. Based on a purported schedule of Public Works and costs thereof appearing in Al-Madinah al-Nunawarah late in August I prepared a more complete tabulation seeking to reconcile the newspaper account with budgeted programs for the financial years 1370-71 and 1371-72. The figures were largely irreconcilable and I have addressed a letter to the Director General of Finance asking him to clarify and amplify on the subject. The objective, to begin the development of a workable system for planning and controlling a true Public Works Program. At least one third of Saudi Arabia's total budget is involved in this area.

b. No significant developments. The matter referred to under this heading in last month's report has apparently been happily resolved.

c. No developments.

d. Accountant-Translator is here--see "a" above.

e. No developments except for training of Accountant-Translator in background and objectives of budget and accounting work.

John A. Stacy

MONTHLY REPORT
Budget
June 1952

CONFIDENTIAL

June 23, 1952

TO: Arthur N. Young

FROM: John A. Stacy *JAS*

SUBJECT: Monthly Operations Report

a. The early part of the month of June was spent in completing interviews with principal officials of the Arabian-American Oil Company in Dhahran. Since about 85% of the total Government revenues are derived through Aramco, the experiences and knowledges of these people are of exceptional value in connection with the budget-accounting work.

Two informal meetings were held with Shaikh Houssein Jastaniya, Director General of Finance, SAG, at which time the final draft of the memorandum of policy regarding relationships between the Saudi Arabian Monetary Agency and the Ministry of Finance was discussed. This document, when approved by Mr. Blowers, will be presented to the Minister of Finance as an official document.

One meeting was held with Najib Bey Salha to discuss the current status of arrangements for housing the Saudi Arabian Monetary Agency and its new head, Mr. Blowers.

b. Work during the month of June was slow due to the celebration of the Ramadan holidays and fasting and also due to the beginning of summer vacations of several Saudi Government officials. The latter condition is expected to obtain for the next several months. There was no particularly significant political or economic conditions affecting the work of the budget advisor, nor were there any significant legislative developments during the month.

c. I am still awaiting the reply of the Minister of Finance regarding the long-range program for budget-accounting work with the Saudi Government. Najib Bey informed me that a reply had been prepared and was in the hands of the Finance Minister for his approval and signature.

d. No significant developments.

e. No developments.

MONTHLY AND QUARTERLY REPORTS ON

CUSTOMS

UNITED STATES OF AMERICA
TECHNICAL COOPERATION ADMINISTRATION

Jidda, Saudi Arabia
January 29, 1953

MEMORANDUM

MONTHLY OPERATIONS REPORT - PUBLIC ADMINISTRATION AND
GOVERNMENT SERVICES DIVISION - JANUARY , 1953

Customs and Tariff

Mr. Kennedy conferred with the Customs Committee, reviewing an index which will greatly simplify the interpretation of the new Tariff Law. This was a laborious and time consuming business as it involved decisions as to the particular tariff item under which imported items will be classified. After completion of the index Mr. Kennedy accompanied the committee to Dhahran on January 25, for consultation with the Ministry of Finance on the problem of relationship between the Government Railroad and Customs. The Railroad manages the Port of Damman and transports goods to the customs warehouse some eight miles from the port. Method of delivery of goods by the Railroad to customs has not proved satisfactory in that no clear-cut ending of the responsibility of the Railroad has been worked out. The Committee will also endeavor to secure approval of the Tariff Index so that it may be published.

John A. Dunaway
Acting U. S. Director of Technical
Cooperation in Saudi Arabia
and Chief, Public Administration and
Government Services Division

MONTHLY REPORTS
CUSTOMS
November, 52

Jidda, Saudi Arabia

MEMORANDUM

November 25, 1952

TO: Dr. Stratton

FROM: John A. Dunaway
Chief, Public Administration
and Government Services Division

RE: Monthly Operations Report - November

Monthly progress reports are attached from Messrs. Stacy and Kennedy.

I. CUSTOMS AND TARIFF

My own activities were largely confined to cooperation with Mr. Kennedy in the conferences in Riyadh at which the proposed tariff was revised in a form acceptable to the Minister of Finance. The new tariff was issued in the form of a Royal Decree, signed by H.R.H. the Crown Prince, on behalf of the King, on Friday, November 21.

Consideration of other matters relating to handling cargo and rates of charges at the Port of Jidda, and the proposed new accounting systems for customs, have been suspended due to the preoccupation with the tariff law.

The procedural changes proposed in my report of May 28, have, for the most part, been provided for in the administrative section of the tariff but they cannot be put into effect until the forms and instructions are prepared. This will take several months.

II. BUDGET AND ACCOUNTING

I have spent some time going over the files and reports in order to become familiar with the status of the work. I have suggested to Mr. Stacy the advisability of making a more thorough study of budgetary accounting and controls which appear to be the greatest weakness in the budgetary field. As the accounts are kept in Mecca, which non-Moslems cannot visit, permission is being sought from the Minister to send the Moslem accountant-translator to make the study.

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RG 469
By 7

Tab A
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ACCESS RESTRICTED

The item identified below has been withdrawn from this file:

File Designation Public Admin.: Reports - Monthly
Memo
Date 25 Sept 52
From Dunaway
To Young

In the review of this file this item was removed because access to it is restricted. Restrictions on records in the National Archives are stated in general and specific record group restriction statements which are available for examination. The item identified above has been withdrawn because it contains:

- ☒ Security-Classified Information
- ☐ Otherwise Restricted Information

State
Authority

12/2/86
Date
dhw

WITHDRAWAL NOTICE

REPORTS
Customs
AUGUST 1952

August 23, 1952

TO: Arthur N. Young
FROM: John A. Dunaway, Customs Advisor
SUBJECT: Monthly Operations Report

I submitted on August 6 a draft of a proposed Customs Regulation to permit the examination of and collection of duty on baggage of passengers arriving by sea and air at the time and place of arrival. This was submitted to the Saudi Government Liaison Officer but due to the lack of adequate translating staff, the proposed regulation has not as yet reached the Ministry of Finance.

I also have ready for submission a report on the operations of the company in charge of cargo handling at the Port of Jidda calling attention to deficiencies in methods of tallying, recording and reporting packages of merchandise. This report has been withheld due to congestion of work in the translating section.

I am working on an analysis of the schedule of charges collected by the Port Authority. This report will be ready for submission in the near future.

There has been no indication of further consideration by the Ministry of Finance of the recommendations made in the Preliminary Report of May 26. Such consideration is not expected until the report of the Tariff Advisor has reached the Ministry of Finance, since the proposed Tariff Act carries the administrative provisions implementing the recommendations of my report on procedure, multiple taxation, etc.

In addition to the retarding effect of inadequate translation, the present pilgrim season has so occupied the time of the Customs staff that attempts to confer on various problems connected with Customs administration have been fruitless.

JAD
John A. Dunaway

July, 1952.

CONFIDENTIAL

July 25, 1952

CUSTOMS ADMINISTRATION
Progress Report for July, 1952

The preliminary report, dated May 28, 1952 making certain recommendations, mostly of a procedural nature was the subject of a conference with the Minister of Finance in Riyadh from July 16 to 18 inclusive. Dr. Young, Mr. Kennedy and I took part in the conference while the Director General of Customs and the Secretary to the Minister represented the Minister. While most of the important recommendations were accepted in principle by the Government representatives, before implementation these must all be approved by a council of higher authorities, probably including H.R.H. the Crown Prince.

In any case, such of the recommendations as are finally approved will need new regulations, orders and instructions, except the recommendations which have been incorporated in the administrative section of the tariff law which Mr. Kennedy has drafted with my advice and assistance.

As promised in the preliminary report, I have drafted a proposal for the organization of a central customs administration which will be submitted when the translation is complete.

On return from Riyadh, I found that none of the promised improvements in procedure had been made by the Jidda Port Authority, hence I have prepared a report with definite recommendations for improvement. If these meet with approval a considerable handicap to customs and consignees should be removed.

Mr. Izzidene, the expert accountant, has finished his study of the customs accounting system. His findings confirm my views as to the inadequacy of the accounts. Unfortunately since Mr. Izzidene has so many irons in the fire in connection with his regular official and private work, the organization of the Monetary Agency and the Commercial School, it may take him several months to design and install the new system.

Jao
John A. Dunaway
Customs Advisor

CONFIDENTIAL

July 24, 1952

REPORT FOR QUARTER ENDING JUNE 30, 1952

CUSTOMS ADMINISTRATION

During the quarter the Customs Advisor, in cooperation with Mr. Kennedy, continued the study of the operations of the Port of Jidda. In the course of the study almost daily conferences were held with the Director of the Hejaz Customs District and the senior officials of the Port and with Hilmy Bey, the Egyptian customs expert.

As a result of this study a preliminary report was prepared and submitted on May 18 in which several specific recommendations were made, for the most part toward simplification of procedure, improvement in method of valuation, the removal of certain discriminatory practices and for the reorganization of the present inadequate accounting system. There were also recommendations for elimination of multiple tax rates, excessive use of revenue stamps and of credits which are being advanced to merchants by delivery of goods on the undertaking to pay duties at some future time.

The study also included the operations of the private company operating the new Jidda pier with particular attention to the defects in checking and recording cargoes.

In the quarter under review I also cooperated with Mr. Kennedy in drafting a new tariff law in which many of the proposed procedural changes will be incorporated.

Due to insufficient translating staff the preliminary report of May 28 was not ready for submission to the Government at the end of the quarter.

J. A. O.
John J. Dunaway
Customs Advisor

CONFIDENTIAL

June 25, 1952

CUSTOMS ADMINISTRATION: Report for the period April 7
to June 25, 1952

During the period under review I continued to study the routine operations of the Port of Jidda, particularly those having to do with imports. While the study was largely of procedure involved in clearing import goods through customs, it necessarily involved attention to collateral services such as accounting, warehousing, inspection, assessment and control.

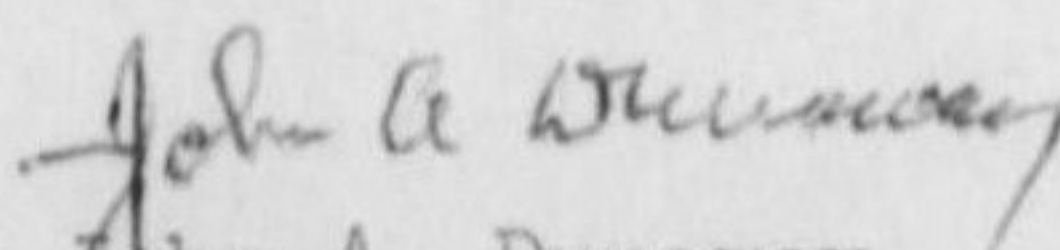
In the absence of a staff member in accounting, it was suggested to the Ministry of Finance that an expert accountant now in the employ of the Government be assigned to devise and install an adequate accounting system for the whole customs service. The suggestion was favorably acted upon and Mr. Fuad Izzadin, who is on leave of absence as head of the accounting department of the American University of Beirut, has undertaken this work. I have conferred with him on the sort of accounting system which will meet the requirements. When the new system is ready for use I anticipate that the aid of accountants will be necessary to install it and train the staff in its use, at least in the major ports.

In the early part of May a conference was held with H.E. the Minister of Finance who urged the early submission of some sort of report on customs administration as well as on the tariff. He intimated that considerable pressure was being exerted on him for improvement in customs and he considered it advisable to have such suggestions as the study justified, even though incomplete. He likewise asked consideration be given to the matter of a free port or free trade zone. In regard to the latter suggestion, I outlined briefly the operations of a free port and the circumstances necessary for its success and suggested further that, so far as I understood the physical layout of the principal ports and the pattern of trade in this part of the world, I doubted a free port would bring the benefits he seemed to expect but that I would look into the matter more fully as opportunity afforded.

Acting on the Minister's request, a preliminary report was prepared under date of May 28. However, as of today's date this report has not been submitted to the SAG due to the slowness in translation. It should be borne in mind that translation from English into Arabic, and vice versa, offers considerable difficulty, particularly when the subject matter is of a technical nature.

The preliminary report is concerned mainly with customs procedure and formalities but it covers certain features of tax legislation which affect administration, especially multiple taxation and the excessive use of revenue stamps. It likewise touches upon the unsatisfactory method of valuation, and handling, storing and recording of import goods.

Since completing the preliminary report I have spent considerable time aiding the translators, especially in their understanding of the meaning of the English, in conferring with Mr. Kennedy on tariff matters and in preparing a report on the organization of a national customs service. This latter report should be ready for submission within a month.


John A. Dunaway
Customs Advisor

REPORTS
CUSTOMS
FEBR. 8 to Mch 31, 1952.
Dunaway

CONFIDENTIAL

April 7, 1952

CUSTOMS ADMINISTRATION: Report for the period February 8
to March 31, 1952

The writer arrived in Jidda on February 8, 1952. As it was considered improper to make direct contact with customs officials before being presented to the Minister of Finance, who was away at the time, after consultation with Dr. Young I began a study of the available documents as background material.

I also conferred at length with Mr. Kennedy on what he had learned about the customs administration in his study of the tariff, in connection with which he had spent a good deal of time at the Jidda customs and had also visited the principal ports of the Al Hasa District.

I was presented to the Minister on February 24 in the company of Dr. Young and Mr. Kennedy. At this conference Dr. Young outlined briefly the close relation between the problems of customs administration and tariffs and how they are related to the general problem of public finance on which the American technicians under his direction are to advise. I outlined the plan of operation I expected to follow, that is, a thorough study of the actual operations of customs administration, as well as the basic customs legislation and regulations as a basis for recommendations for improvement, and suggested that a study of this kind would of necessity take considerable time. The Minister expressed his approval of this plan, and said that he would allow what time is necessary, and promised whatever assistance might be required.

It seemed advisable to start with a study of the organization having to do with the national administration of customs, to find out its functions, powers and methods of operation. The tentative conclusion is that in the proper sense of the word there is no central unified customs administration, but that in one way or another customs is managed by the Minister of Finance either personally or through whatever official he chooses to use; that the Director General of Customs mentioned in the regulations is in fact merely an advisory officer and makes recommendations only on matters referred by the Ministry.

With Dr. Young's approval Mr. Kennedy and I have been making a joint study of the whole customs field, and on the side of administration have been observing the actual operations at the Port of Jidda in all phases of the procedure of clearing goods -- from the time of unloading to release after the payment of duties. The study is not yet complete as we have not observed the operations involved in handling exportations, transit and trans-shipments, passenger's baggage, parcel post, air-freight cargoes, the Coast Guard and the operations of the Port Authority. We also have not looked into the operations of any of the small stations dealing with over-land traffic.

John A. Dunaway
Customs Advisor

There are a great many apparent defects in the procedure and operations on which preliminary and tentative recommendations could be given, but it seems advisable to wait until the study is completed at the Port of Jidda and a similar study is made of the operations in the Al Hasa District which is increasingly important on account of the Aramco operations.

In the course of our study it has become apparent that, among other things, the accounting system is inadequate and fails to fulfill the real functions of accounting. It is obviously important to have the assistance of a professional accountant in designing and installing an adequate system and in teaching the staff how to use it. I understand that an accounting officer is included in the personnel of the Public Finance Group and I hope he will arrive at the earliest possible date.

It is also clear that statistics on foreign trade are almost entirely lacking and that those compiled are so incomplete, inaccurate and delayed as to be practically useless. I am told that such statistics have been considered confidential and for this reason they are not made public. The Finance Ministry has been responsive to our recommendation that such statistics be compiled according to an effective system, although it is not yet clear that they are willing to have them published. Arrangements have been made for an early visit of a representative of the International Business Machines Company to give a preliminary indication of the types of machine needed and plans for introducing and operating them. Also it is learned that an American expert on trade statistics, Mr. Thomas F. Corcoran, is now working with the Pakistan Government and could make a short visit to Saudi Arabia to advise regarding preliminary plans. We shall approach SAG to learn whether a visit by him would be welcome, and if so shall forward the request through the usual channels.

If SAG definitely decides to install a proper system of trade statistics I suggest the advisability of adding an experienced statistician to the staff for a period long enough to design and install a statistical system and then to train a staff to carry on the work. While I have had some experience in supervising statistical work of this kind and Mr. Kennedy has done considerable research work on the problem, we should not undertake immediate responsibility for a system of statistics if we are to achieve our other main objectives in a reasonable time. I have no idea how long it would take to install a statistical service and train the necessary personnel but I believe that a two year period should be anticipated to be on the safe side.

JAD
John A. Dunaway
Customs Advisor

MONTHLY AND QUARTERLY REPORTS

ON

TARIFF

UNITED STATES OF AMERICA
TECHNICAL COOPERATION ADMINISTRATION

Jidda, Saudi Arabia
January 29, 1953

MEMORANDUM

MONTHLY OPERATIONS REPORT - PUBLIC ADMINISTRATION AND
GOVERNMENT SERVICES DIVISION - JANUARY , 1953

Customs and Tariff

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John A. Dunaway
Acting U. S. Director of Technical
Cooperation in Saudi Arabia
and Chief, Public Administration and
Government Services Division

Jidda, Saudi Arabia

MEMORANDUM

November 26, 1952

TO: John A. Dunaway
Chief Public Administration
and Government Services Division

FROM: Robert B. Kennedy, Tariff Advisor *RBK*

RE: Monthly Operations Report for November

a) Pursuant to specific cable instructions from His Majesty, the King, the Crown Prince signed as of November 17, 1952, a decree making a new Tariff Law effective on and after December 3, 1952. This decree represents the successful conclusion of the second phase of my work. The first phase was the drafting of a proposed Royal Decree to effectuate my recommendations for tariff revision, including the background work necessary to formulate these recommendations. This proposed Royal Decree was included in my report to the Minister of Finance of June 29, 1952, on "The Tariff Laws". Since this report contained proposals as to rates of duty, it was felt advisable to withhold its transmittal to Washington. Copies are attached hereto for forwarding to Washington at this time. The second phase of my work - namely, securing the issuance of a Royal Decree to institute both tariff and customs revision - started in July when conferences were held in Riyadh. These conferences were continued in October in Jidda and again from November 12 to 18, in Riyadh. My proposed decree was discussed in every detail and agreements were reached for its revision. Copies of the English version are attached hereto.

The new tariff law is entitled "The Tariff Ordinance of 1372" - the present Moslem year. Some of the most important changes which were included in my recommendations and which have been adopted in this new tariff law are as follows:

1. Wider Use of Ad Valorem Duties - In section II of my report I had recommended the use of ad valorem duties on all products. Although this has not been accepted entirely, the new tariff has very few specific duties - all of which are on foodstuffs. There was much opposition to the use of ad valorem duties, mostly generated by the Minister of Finance who repeatedly expressed his opposition thereto. It is certain that this adoption of most ad valorem duties will make possible a more simple customs administration. It is certainly responsible for the short, concise tariff schedule which has been adopted.

2. Equitable Taxes on Imports - I had recommended the equitable distribution of the import tax burden according to the ability of the people to pay. This has been adopted in the new tariff. Articles usually consumed by the poor are at relatively low rates. The majority of products are at the general rate of 15% ad valorem. This, in time, will make possible a higher standard of living by reason of the greater availability of a wider variety of better quality products at prices within the reach of the greater mass of people. Luxuries are at a relatively high rate (with some exceptions necessitated by reason of smuggling control difficulties). The well-to-do people are thus required to carry a higher tax burden.
3. General Lowering of Rates - Although the statistical data available is not sufficiently accurate to give a reliable estimate of the extent to which the rates have been lowered, a comparison of the old and new tariff laws reveals a general lowering of rates. This also should encourage imports.
4. Modern Tariff Schedule - The new tariff is divided into ten chapters according to type of product. Each item within the chapters is numbered so that easy reference may be made thereto. The old tariff law was a mere alphabetical listing of products on which rates of duty had been prescribed.
5. Concise Descriptions - The language used to describe the various products in the new tariff has been drafted to avoid as many ambiguities as possible. The general style of descriptions which I had recommended has been adopted in the new law.
6. Single Taxation - The old law provides for ten separate collections by Customs. Both Mr. Dunaway and I had recommended the elimination of this system of multiple taxation. The new law has adopted these recommendations except for the imposition of a single sur-tax. Also the old law provided for the disbursement of these separate taxes by the customs to the various beneficiaries. They have accepted the principle of retaining customs as a collecting agency, leaving the disbursement of this sur-tax to the Ministry of Finance.
7. Prohibition Against Additional Taxes - The new law specifically prohibits the imposition of taxes or charges in addition to those provided for in the new law. Under the old system, certain imported products had been subjected to various charges and taxes by the Minister of Finance. Under the new law the King is the only person who can take such action.
8. Alternative Basis of Value - Products subject to ad valorem duties, the value of which could not be proved, were arbitrarily increased in value by the customs authorities under the old law. The new law provides that alternative basis of value shall be the nearest ascertainable equivalent of the actual price paid plus freight and insurance.

9. Further Royal Approval Unnecessary - The new law contains all of the provisions dealing with basic tariff policy. The Minister of Finance is authorized to issue such rules and regulations as are necessary to carry out these provisions. Changes in customs administration will therefore be obtained merely through approval by the Minister of Finance rather than through further Royal Decrees. This will simplify customs administrative changes.
10. Conversion of Currencies - The new law provides for the use of actual rates of exchange for converting invoice currencies into Saudi currency values. The rate to be used is the middle rate issued by the new Saudi Arabian Government Monetary Agency. The old law had no specific requirement in this regard. As a result, arbitrary foreign currency values were used resulting in increases in the amount of duty which had to be paid.
11. Coin for Payment of Duties - Under the new law, the Minister of Finance is authorized to specify the coin or coins which will be accepted for payment of duty. This will make it possible to require the use of new coins which may be introduced as a result of recommendations by this section of the Point Four program.
12. Elimination of Export Duties and Transit Duties - One of the major improvements in the new law is the elimination of export duty. These duties represented a very minor portion of customs revenue and yet they were responsible for a considerable amount of time spent in the administration of customs. Transit duties have never been important.

The partial printing of the Decree in "Um el Qura" had many errors as to form and substance. We have secured a complete revision of the Arabic text of the decree to conform to the agreements reached in the various conferences. Also the Arabic text is in conformity with better Arabic style. However, the decree has not yet been printed in complete final form. There are still possibilities that the Arabic text will not be in the form we think it should be. We are continuing our efforts to assure an accurate Arabic text.

The time of effectiveness of the Royal Decree is set for December 3, 1952. This was against our specific recommendations. We had advised that at least four months would be necessary in which to get the new law printed and distributed, compile and issue an index and prepare an explanation of the tariff. Also, it was felt advisable to have personal contact with as many of the customs employees as possible to discuss their problems in relation to the new tariff. It is understood that many of the merchants are not at all pleased with the fact that the new law is becoming effective so soon since many of them have large inventories on which they paid the previous rate of duty. It is certain that the action of putting the new law into effect on such short notice will result in many difficulties in the administration of the new schedule.

b). The new rate of duty on tobacco and tobacco products is 150% ad valorem. In Riyadh, we were advised that certain religious leaders desired to put "the highest rate in the world" on these products. We were asked to advise them which country had the highest rate and what their rate was. Fortunately before this could be done, the approach in getting the schedule approval had been changed making it unnecessary to provide this information. Upon returning to Jidda we were advised that the Crown Prince wished to impose a duty of twenty-eight Saudi Riyals per kilo on these products. We wrote a short note to the Crown Prince suggesting an ad valorem duty rather than the specific.

We were advised by the Deputy Minister of Finance that the new customs administration will be headed by a completely new group of officials. We understand that Zaki Omar, a former Director of Hejaz Customs, has been officially informed that he is to be the new Director General of Customs in Saudi Arabia. We also understand that the Director of Jidda Customs, Anwar Abu El Jadayel, is likely to be ousted, and that the present Director of Saudi Arabian Customs, (in title only), Mohammed Nur Rahaimi, is to be Director of Jidda Customs. All of these uncertainties in customs officialdom makes it very difficult to proceed with the task of getting the customs officials ready for the application of the new law.

c). No comment.

d). No comment.

e). No comment.

Jidda, Saudi Arabia

October 25, 1952

MEMORANDUM TO: John A. Dunaway, Chief, Public Administration and
Governmental Services Division

FROM: Robert B. Kennedy, Tariff Advisor

RE: Monthly Operations Report

This month brought the greatest activity in my work thus far with the Saudi Government people. In the early part of this period the Minister of Finance gave my report on revision of the tariff law to the top Customs men to review. Starting on October 16 long sessions have been held on my proposals ending with a meeting on October 23 with the Deputy Minister of Finance at which time a revised tariff law agreed to by the Customs officials and by Mr. Dunaway and me was given to the Deputy Minister for presentation to the Minister.

The more important principles embodied in my original recommendations and draft law which have been agreed to are as follows:

1. Use of ad valorem duties throughout the schedule. Agreement on this point was not as difficult as had been anticipated. The Customs officials wanted specific duties on tobacco and tobacco products, but finally agreed to ad valorem duties across the board.

2. Single taxation. The present complicated system of multiple taxes has given Customs considerable difficulty. Many products pay seven or eight different taxes, and all products are subject to five taxes in addition to the basic duty. Agreement was obtained that there should be but one duty (or tax) imposed embodying the various taxes now imposed.

3. My original theory on the tariff schedule--five rates of duty, two covering luxury type articles, two for articles for the poor and basic development products, and one rate covering all other products--was agreed upon. Although my recommendations as to actual rates have not yet been disclosed, there was agreement as to the general theory of division of products into these rate classes. Also, the idea of mentioning only those articles subject to duty at a rate different from the general rate was agreed to.

4. Elimination of transit duty.

5. Elimination of export duty.

The more important principles agreed to on matters which I included in the basic law to implement the suggestions of Mr. Dunaway on administrative matters are as follows: (1) national Customs administration; (2) use of bill of entry and standard invoice; (3) control of Customs brokers; (4) use of actual exchange rates for conversion of invoice currencies; (5) time limitation on final liquidation of entry; and (6) requirement that Customs make refunds for overpayments.

The only substantive point on which agreement could not be obtained was on the basis of value. Mr. Dunaway and I had recommended the use of FOB value. The Customs officials insisted on the use of CIF.

The revised draft Royal Decree which was agreed to by the Customs officials, Mr. Dunaway and me is now with the Minister of Finance, who is purported to be in Riyadh to present the Decree to the King for consideration and action. It may be that we will be called to Riyadh to make further explanation of my proposals.

Robert B. Kennedy
Tariff Advisor

CONFIDENTIAL

Monthly Report
TARIFF
June 1952
June 23, 1952

TO: A. N. Young, Chief Financial Mission

FROM: Robert B. Kennedy *RBK*

SUBJECT: Monthly Operations Report

a. The most significant development insofar as the tariff is concerned has been the attitude of the Assistant Deputy Minister of Finance and the Minister of Finance toward levels of duty. Until recently there was a decided opposition by these officials to any lowering of the total customs return. Seeds for thought on this subject had been planted many months ago. There was general support among the lower echelon for a general reduction of the tariff. In a recent meeting with the Assistant Deputy Minister of Finance, he expressed his feeling that rates should be few and lower than those charged in Bahrein. This official promised support of our recommendations along this line. In a later meeting with the Minister of Finance it appeared that the Assistant Deputy Minister had been attempting to persuade the Minister along these lines. The Minister definitely indicated that his previous ideas as to total customs return were weakening.

My report and recommendations for the general revision of the tariff law is taking advantage in a modified form of the attitudes expressed by these two officials. The first portions of this report have been completed and are being translated. They deal with the general tariff policies which are recommended for adoption by the Government. The remaining portions of the report are now being drafted. These will include my specific recommendations as to level and type of duty and the general provisions of the tariff law. A draft royal decree incorporating all of the necessary provisions for the King to pass upon to impose and administer the new tariff law is being drafted to present with this report and recommendations.

b. A recent royal decree repealed certain taxes imposed on pilgrims. It may well be that this is an indication of the King's possible attitude toward a general lowering of rates of import duty as well as total customs return.

c. Discussions with Saudi Government officials indicate their willingness for a short visit of a trained import-export statistician. A draft request by the Saudi Government for such a technician has been presented to Saudi Government officials. However, this request has not been received by the Embassy.

d. No developments.

e. No developments.

July 24, 1952

Memorandum to: A.N. Young

From: R.B. Kennedy, Tariff Advisor

Subject: Operations report for quarter ending June 30, 1952

1. Background studies with reference to establishing sound tariff policies were completed early in this quarter. Attempts to obtain usable import-export statistical data and customs revenue data brought results not completely satisfactory. Studies of existing tariff and customs laws and regulations were difficult by reason of the lack of a sound system of recording amendments. Despite these difficulties, I collected and analyzed such data as could be obtained.

2. The drafting of a Draft Royal Decree embodying my recommendations as to rates of duty and general provisions of law was completed. Also, my exposition with reference to this law was practically completed. Translation of the tariff schedule was started.

3. One of the most difficult problems confronting us on the tariff is level of duty. The principal difficulty encountered in the earlier period of work was that the Minister of Finance opposed any reduction in the total customs revenue. The Assistant Deputy Minister of Finance (Najib Bey Salha) for a time took a like view, but his view has definitely changed. In a conference some weeks ago with Dr. Young, Mr. Dunaway and me, he openly expressed his views with reference to levels of duty and total customs return, indicating a willingness to go along with a program of lower rates. His views actually go farther than we feel justified in recommending. However, his ideas with reference to level of duty have been incorporated in a modified form in the proposed tariff schedule. Also during this quarter there was a decided weakening in the views of the Minister. Apparently he is being softened not only by the influence of the Assistant Deputy Minister, but by the reported wish of the King to alleviate the burden of taxation on the poor.

4. Other than the proposals as to level of duty the basic changes in the tariff policy are directed to encourage imports, exports and transshipments. Some of the more important changes are the use of ad valorem duties throughout the schedule, the use of a single rather than a multiple tax system, and the change in basis of value from CIF to FOB. Many other changes are proposed. Also the basic law has been drafted to include the proposals made by Mr. Dunaway with reference to customs administration.

July 24, 1952

CONFIDENTIAL

MEMORANDUM TO: A.N. Young
FROM: Robert B. Kennedy, Tariff Adviser
SUBJECT: Monthly Operations Report

a. & b. Report was informally received to the effect that His Majesty wished to eliminate all customs duties; that He did not want his people to pay any such taxes; that this attitude was by reason of his desire to do something for his people in his last days. These reports were generally known, which resulted in a flurry of selling by merchants to get rid of their duty-paid inventory; the Chamber of Commerce and influential merchants raised a protest and; Customs authorities complained of nothing to do for the reason that merchants were not entering their merchandise pending further word on the duty elimination.

Upon request of the Minister of Finance Dr. Young, Mr. Dunaway, our interpreter Fuad Hajjar and I went to Riyadh for discussion on our proposal for tariff and customs revision. The first day in Riyadh definitely indicated that there was some type of crisis with reference to customs duties. The Minister proposed that a meeting be arranged for the next day with the Crown Prince and his advisers. However, the crisis apparently passed for the meeting did not materialize. Instead, we had discussions with the Director General of Customs and other lower officials. Since the only portion of my report which had been translated was my Proposed Tariff Schedule (not including actual proposed rates), it was decided that these discussions insofar as my proposals are concerned would have to await the complete translation.

There is good reason to believe that the King did express his desire to eliminate customs duties, but that the Crown Prince and other advisers dissuaded him or found some means to block the proposal. The Crown Prince in a conference with us indicated his definite feeling that the tariff should remain as a substantial source of revenue.

It is very likely that these events can be turned to our benefit. The tariff policies of the Government are, and will continue to be, to the fore in the minds of the officials and people of the country for some time to come. Opportunity for implementing my proposals seems to be greater now than it has ever been in the past.

This month brought the completion of my recommendations for revision of (a) the tariff, and (b) the general provisions of the tariff law in order to implement (1) the new tariff schedule and (2) Mr. Dunaway's proposals regarding customs administration. Translation of this report is being completed, at which time it will be presented to the Minister of Finance.

c. The above referred to discussions in Riyadh indicated a willingness on the part of the Saudi government officials for the installation of a modern import-export Statistical Division. Details for obtaining a request from the Saudi government for a full time import-export statistician are being completed.

d. No developments.

e. No developments.

CONFIDENTIAL

June 23, 1952

TO: A. N. Young, Chief Financial Mission

FROM: Robert B. Kennedy

SUBJECT: Monthly Operations Report

a. The most significant development insofar as the tariff is concerned has been the attitude of the Assistant Deputy Minister of Finance and the Minister of Finance toward levels of duty. Until recently there was a decided opposition by these officials to any lowering of the total customs return. Seeds for thought on this subject had been planted many months ago. There was general support among the lower echelon for a general reduction of the tariff. In a recent meeting with the Assistant Deputy Minister of Finance, he expressed his feeling that rates should be few and lower than those charged in Bahrain. This official promised support of our recommendations along this line. In a later meeting with the Minister of Finance it appeared that the Assistant Deputy Minister had been attempting to persuade the Minister along these lines. The Minister definitely indicated that his previous ideas as to total customs return were weakening.

My report and recommendations for the general revision of the tariff law is taking advantage in a modified form of the attitudes expressed by these two officials. The first portions of this report have been completed and are being translated. They deal with the general tariff policies which are recommended for adoption by the Government. The remaining portions of the report are now being drafted. These will include my specific recommendations as to level and type of duty and the general provisions of the tariff law. A draft royal decree incorporating all of the necessary provisions for the King to pass upon to impose and administer the new tariff law is being drafted to present with this report and recommendations.

b. A recent royal decree repealed certain taxes imposed on pilgrims. It may well be that this is an indication of the King's possible attitude toward a general lowering of rates of import duty as well as total customs return.

c. Discussions with Saudi Government officials indicate their willingness for a short visit of a trained import-export statistician. A draft request by the Saudi Government for such a technician has been presented to Saudi Government officials. However, this request has not been received by the Embassy.

d. No developments.

e. No developments.

CONFIDENTIAL

April 16, 1952

TARIFF: Report for the period September, 1951
to March 31, 1952

1. In summary, my work has been chiefly directed to: (a) acquainting myself with local conditions affecting formulation of the tariff policy which I would recommend as best for adoption by the Saudis; (b) making contact with financial and customs officials to determine what would be acceptable to the responsible officials; (c) formulating and presenting ideas as to type of duty (ad valorem or specific) basis of valuation, and type of tariff nomenclature best suited for Saudi Arabia; and (d) acquainting myself with the details of the present customs administration so that I can be of the greatest possible assistance to Mr. Dunaway.

2. The primary problem has been the proper level of duty for Saudi Arabia. There is agreement by all the Saudi officials that all items necessary for the subsistence of the poor should be subject to very low duties or should be exempt. Also, there is widespread support, e.g. from Prince Feisal and Najib Bey Salha, for accepting at least a temporary reduction of the total return from customs revenues which might result from such a change, through encouragement to trade from a lower level of duties and better administration with subsequent better revenue may result. Although this matter has not yet been fully presented to him, the Minister of Finance has indicated opposition to any reduction of the total customs return. His feeling has been that any such reductions should be offset by higher duties on luxury items. Further representations on this point are now being considered. This is undoubtedly the most difficult matter confronting me at the present time.

3. The question of type of duty (ad valorem or specific) will be the subject for further discussion with Saudi officials. Mr. Dunaway and I are of the opinion that ad valorem duties for all products would be best suited for Saudi Arabia. The basic reason for this is that a simple tariff schedule is necessary to overcome difficulties of administration. By the use of ad valorem duties the tariff schedule can be drafted in a few broad categories. If specific duties are used a minute classification nomenclature would be necessary. This would result in many questions as to the proper category for the tariff classification of any particular article imported. There are also economic factors which favor the use of ad valorem duties. There is, however, considerable opposition to the use of ad valorem duties, for the administration of such duties has been and is very bad here. The principal difficulty has been to arrive at the proper dutiable value of items now subject to ad valorem duties. With the installation of administrative changes, Mr. Dunaway and I are of the opinion that the valuation problem can be solved. Basic work on proposals for the use of ad valorem duties is now being done.

4. The style of tariff nomenclature must necessarily be determined by decision as to type of duty.

5. Representations to customs officials are being made for a change in the basis of dutiable value. At present the basis is CIF (cost of the merchandise, freight to the port of entry, and insurance). For many administrative and economic reasons we are proposing that the basis be changed to FOB port of export. At present there is much opposition to this change, but proposals to be presented at the top level are being drafted and will be presented in due course.

6. With reference to customs administration I have spent considerable time making a detailed study with Mr. Dunaway as to present practices. We have followed entrance formalities step-by-step. The overall administration is also being studied. Particular difficulty is found in the accounting section and the office of the cashier. It is important to secure the aid of an accountant to help with these difficulties. My understanding is that an audit of the cashier of the Jidda customs has been attempted but a year's work by the auditors brought no conclusion. The Jidda customs director asked for our aid in setting up some procedure to eliminate this difficulty. We have proposed a temporary measure.

7. I have done considerable work on assembling statistical data. Data given me by the Saudis are very inaccurate and badly arranged. I have done detailed work on these data. Such work is necessary (a) in determining proper levels of duty, (b) in forecasting the effect of rate adjustments, (c) to acquaint myself with the items of importance in the trade of Saudi Arabia, and (d) to eliminate language difficulties with names of products. My statistical compilation is in English as well as Arabic. The statistical data given me are recorded on separate sheets for each separate item. The assistance of a trained import-export statistician would make possible the institution of a modern system for compiling trade statistics. The Saudi officials have shown interest in this matter in spite of their inherent opposition to publishing trade statistics. Work is in progress to bring about the use of modern statistical methods.

Robert B. Kennedy

MONTHLY AND QUARTERLY REPORTS ON

PUBLIC FINANCES

Jidda, Saudi Arabia

October 25, 1952

MEMORANDUM TO: Dr. Stratton, Country Director TCA

FROM: John A. Dunaway, Chief, Public Administration and
Government Services Division

RE: Monthly Operations Report

Monthly progress reports are attached from Messrs Stacy and Kennedy. My own activities included the following:

1. A memorandum to the Minister of Finance in answer to a question on the date and place of termination of responsibility of ships for cargo consigned to Saudi ports. This subject had been treated at some length in a report submitted on September 2 but which has not reached the Minister due to inadequate translation staff.

2. I submitted on October 22 a report on the schedule of charges imposed on goods at Jidda by the Company operating the port under contract and among other things recommended a complete revision of the schedule in order that the rates may more nearly conform to cost of service.

3. The Minister of Finance called a conference on October 17 for discussion of the procedural changes proposed in my preliminary report of May 28 and of the proposed tariff law drafted by Mr. Kennedy. Dr. Young, Mr. Kennedy and myself represented TCA while the Minister, Deputy Minister, Director General of Customs, Acting Director Hejaz Customs District, the Egyptian Tariff Expert and Shaikh Abdulla Rezak, a member of the Tariff Committee, represented the Government. The last four named gentlemen comprise a committee which submitted observations on procedural changes which had been included in the proposed tariff law. We had reached substantial agreement by the afternoon of October 23 when we were called to meet the Deputy Minister of Finance. At this meeting additional advisors were present, the most important being Mohamad Soroer and the Director General of Finance. A few unimportant verbal changes were made in the draft and it was signed by all members of the Committee for submission to the Minister. He sent word that he expected to go to Riyadh today (October 25) and would attempt to arrange a conference with the Crown Prince or the King in the hope of early promulgation of the new tariff. He requested Mr. Kennedy and me to hold ourselves in readiness to go to Riyadh in case we should be needed.

4. Among the proposals of my report of May 28, which have been approved in principle, is the establishment of a national Customs administration, including a statistical division. While it is impossible to forecast when these proposals will become effective, the need for a TCA staff member qualified to inaugurate and direct a statistical organization is apparent.

5. Quite aside from the difficulties inherent in the TCA program, there is one bottleneck which could be removed, or at least reduced-- the long delay in translation. It may well be that the answer to this problem is the employment of translators by TCA, for it should be obvious by now that our work will be seriously delayed so long as we have to depend upon SAC for this essential service.

Jab
John A. Dunaway

CONFIDENTIAL

August 16, 1952

MEMORANDUM FOR MR. BETZIG

Attached hereto are monthly operations reports prepared by Messrs Dunaway, Stacy and Kennedy covering the month of August to date.

As to my own activities, I comment as follows under the heads set out in your memorandum of June 3:

- a. Considerable progress was made in the plans for the opening of the Saudi Arabian Monetary Agency. The rehabilitation of the building is approaching completion and the vault is well under way. Material purchased abroad is arriving. Various conferences were held with the Minister of Finance and the Governor, Mr. Blowers, regarding plans for opening of the Agency. The present plan is to open the Agency in the second half of September. The Royal Decree naming the Directors has been issued. The Directors are: Shaikh Abdullah Sulaiman, Minister of Finance, President; Najib Bey Salha, Assistant Deputy Minister of Finance, Vice President; George A. Blowers, Governor, member ex officio;; Sayyid Al Attas; Salem Bin Mafeoz; and Rasim Bey Khalidi. Mr. Khalidi also will be one of the Managers.

I completed a report on the issuance of the new gold sovereign together with a draft decree which were submitted to the Minister with proposed rates left blank. I explained to him that I had a separate confidential memorandum on rates which I shall prepare to discuss at the appropriate time--which he agreed with me will be just before the Agency is ready to issue the new coin.

This report is submitted as of August 16 because I shall be absent during the remainder of the month on local leave. My departure was put forward because of illness (fever) during the early part of August.

b., c., d., e. No special comment.

Arthur H. Young

CONFIDENTIAL

June 24, 1952

MEMORANDUM FOR DR. STRATTON

Attached hereto are monthly operations reports prepared by Messrs Dunaway, Stacy and Kennedy covering the month of June to date.

As to my own activities, I comment as follows under the heads set out in Mr. Betzig's memorandum of June 3:

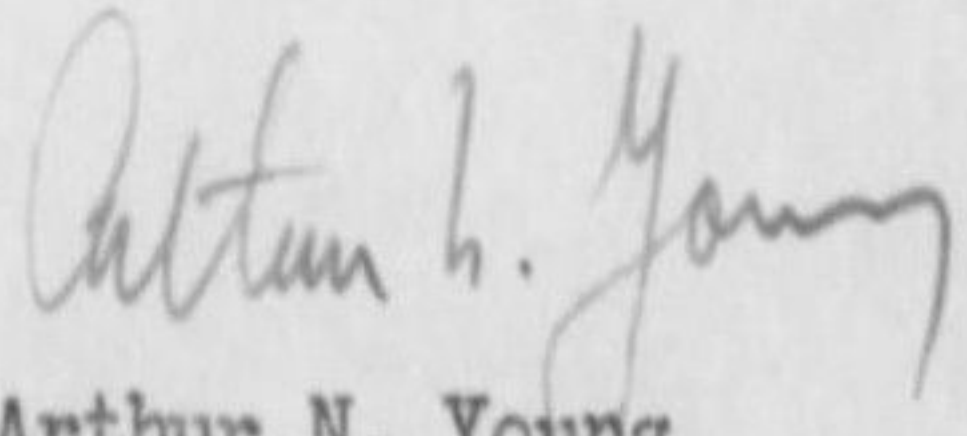
a. Special attention was given to preparation of the building which is to house the newly created Saudi Arabian Monetary Agency. This included the remodelling of the old building assigned to the Agency by the Government; plans for construction of the vault on adjoining vacant property; selection and ordering of vault doors, safes and other necessary equipment. Also we were in active correspondence with Mr. Blowers, the Governor-elect, regarding plans for organization of the Agency, including equipment, staffing, correspondents, etc.

I was absent on local leave in the first half of June. While spending a few days in Addis Ababa, I took occasion to look into the set-up of the Ethiopian State Bank.

Efforts to stabilize the foreign exchange value of the riyal were continued. During my absence in the first half of June, however, the riyal appreciated so that its value was about 3% above the theoretical middle point of 3.75 riyals per dollar. Had I been here I would have urged the Government to combat the rise more aggressively by paying out riyals now in stock. During the preceding six months the fluctuations either way had been held within less than 2% of 3.75 per dollar.

Also I gave considerable attention to discussion of customs and tariff policy, in re reports under preparation.

b., c., d., e. No special comment.


Arthur N. Young

MONTHLY OPERATIONS REPORT
E - FIELD PARTY REPORTS

Confidential

4/22/52

News.

~~Dunaway~~

~~Kennedy~~

~~Stacy~~

To note & return.

Any

CONFIDENTIAL

April 22, 1952

Mr. Young
REPORTS - MONTHLY &
QUARTERLY
PUBLIC ADMIN

WORK OF THE FINANCIAL MISSION TO SAUDI ARABIA
July 12, 1951 to March 31, 1952

Attached are reports as follows:

1. Currency and Banking, by Arthur N. Young, dated April 6, 1952
2. Memorandum of Conversations of Arthur N. Young and George A. Blowers with SAG Officials regarding Establishment of a "Monetary Agency", February 15-24, 1952
3. Public Finances, by Arthur N. Young, dated April 7, 1952
4. Budget, by John A. Stacy, dated April 3, 1952
5. Customs Administration, by John A. Dunaway, dated April 7, 1952
6. Tariff, by Robert B. Kennedy, dated April 16, 1952.

These documents give particulars of the activities in the special fields of work.

Work as a whole got under way slowly due to several circumstances. Although I arrived in Jidda on July 12, 1951, the other members of the Mission did not arrive until the following dates: Mr. Robert B. Kennedy, Tariff Expert, September 20, 1951; Mr. John A. Dunaway, Expert on Customs Administration, February 8, 1952; Mr. John A. Stacy, Budget Expert, February 19, 1952; Mrs. Edna B. Stacy, Secretary, February 19, 1952. The Accounting Expert has not yet arrived. Also for several months preceding Dr. Stratton's arrival on March 7, 1952, I served at the Department's request as Acting Director of Technical Cooperation, and this work took a material part of my time.

The Minister of Finance, Shaikh Abdullah Sulaiman, has been absent from Jidda during the greater part of the time since July 12, 1951, and the Assistant Deputy Minister, Najib Bey Salha, has been absent part of the time. This reduced the possibility of contact, as does also the fact that when these high officials are present they are very busily occupied. Pressure on them is increased because of the lack of a proper administrative system, a defect which the Mission is striving to remedy.

The general plan of work which was developed in close and very helpful contact with Ambassador Hare--has been to act along the following lines:

1. To gain the confidence of Government officials at all levels and of the community in the desire of the Mission to be of real help to Saudi Arabia and in the integrity and qualifications of the various individual members of the group; and to establish as close contact as possible with the Minister of Finance and his staff.

2. To collect and analyze all available information on financial and economic matters. Data of special importance have been received from Aramco, with whom close cooperation has been established.
3. To take up with priority financial problems in which the Saudi Arabian officials manifest interest, which fortunately have included important problems with which it is logical to begin.
4. To begin with less sensitive problems and avoid friction that will be inseparable from some of the more sensitive problems-- an example being the expenditures of the royal family.
5. To improve and strengthen administrative machinery, e.g., by setting up the proposed Monetary Agency and by improving customs procedure.
6. To give advice on current problems as they arise--e.g., de facto stabilization of the riyal in dollars since mid-December by timing of Government purchase of riyals in the market and by persuading the Government to reduce its intended order for new coins and withholding these from issuance so long as the riyal shows no tendency to appreciate. The use of the American-Saudi Arabian stabilization agreement of May 27, 1950, has been helpful to this end, as has stability of the New York silver price.

In conducting the work I have found the Government cooperative and have had helpful contact with His Majesty Ibn Saud, the Crown Prince, the Foreign Minister, the Minister of Finance and numerous other officials; also with the banks and Saudi Arabian and foreign business men. I have visited Riyadh, the Dhahran oil area, Hoffuf, Al Kharj, Taif and Bahrein.

Specific accomplishments so far have not been much in evidence to the public, which, for example, does not realize what is behind the de facto stability of the riyal. Nevertheless the way is being prepared for results that should show. The most immediate prospect is the creation of the Monetary Agency, for which a royal decree is apparently about to be issued. This should be followed by issuance of the new gold sovereign with stable value in dollars. I advised the Government to pay for and bring to Jidda the unissued new gold sovereigns worth about \$10 million, instead of leaving them in Paris and expecting the Banque de l'Indochine to continue indefinitely to carry them. The sovereigns should all be received in Jidda during the current month. They are lodged with the NTS which is providing the funds for payment but without any net increase in indebtedness of the Government since the sovereigns are credited to the account and the dollar cost is charged.

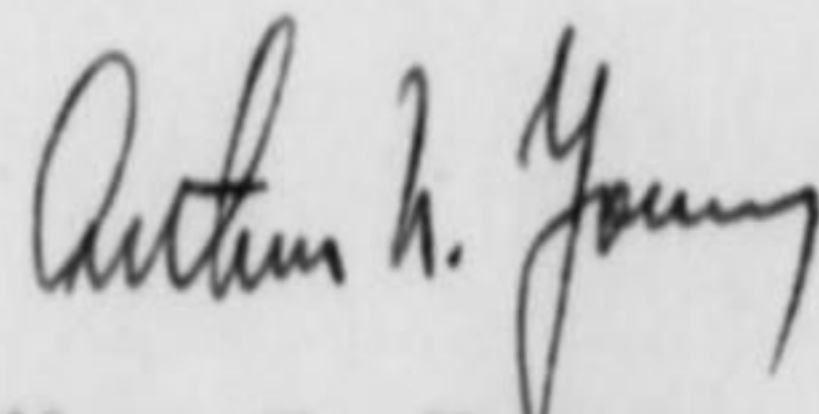
At the time of the crisis last summer due to the Government having discounted future Aramco payments too heavily, I advised that Aramco should make a further advance amounting to about \$25-30 million to be liquidated out of the 1952 income tax, and that future payments of income tax be made monthly in approximately equal installments rather than quarterly, thus helping the Government to live within its excellent current income. This type of arrangement was adopted, and already the Government is getting on a current basis. Payments to public employees have been made promptly since last summer, by order of the King.

Also I advised the Government to begin liquidation of its overdrafts to the Banque de l'Indochine (\$1,200,000) and to the Netherlands Trading Society (averaging about \$6 million). The Government is paying for the former in installments of \$100,000 monthly beginning in January 1952 and hopes to begin shortly payment of the latter.

There is good possibility of early adoption of improvements in customs procedure which the commercial community will welcome, and of a simplified and lower tariff structure. Mr. Dunaway and Mr. Kennedy are in day-to-day contact with the Jidda customs officials.

Further a good beginning has been made in the approach to budget problems, and it has been found that the Ministry of Finance officials immediately in charge are doing considerably better work than had been anticipated. The budget for the fiscal year beginning March 27, 1952, has just been published. The Ministry of Finance consulted us re the draft budget about March 1, and embodied provisions which Mr. Stacy and I suggested to simplify it and leave the way clear for adoption of later improvements.

Finally, I have urged on the highest officials at every possible opportunity the wise employment of revenues and the setting aside of part of the excellent oil revenues for productive purposes. These purposes include provision of about \$5,000,000 for capital of the Monetary Agency, which the Minister of Finance undertakes to set aside as soon as needed; currency reserves; fiscal reserves against the day when oil revenue may slump; and funds for a program of development of the country's human and material resources, which program should be set up with appropriate priorities. The ideas are welcomed in principle, and there is hope that as time passes they will be given increasing effect.



Arthur N. Young
Financial Advisor to the
Kingdom of Saudi Arabia

Mr. Young

CONFIDENTIAL

April 6, 1952

CURRENCY AND BANKING: Report for the period July 12, 1951 to March 31, 1952.

1. I have been able to concentrate on this field and substantially to complete the planning because delay in arrival of the members of the Financial Mission made it impracticable to do much in their respective fields of work. Non-arrival of a secretary until February, however, handicapped the work and I had to rely on part-time local American help. This report outlines what has been done and the present status. Further information is available in various reports of the Embassy at Jidda and in informal correspondence with officers in Washington.

2. The Finance Minister at the time of my first call referred to his interest in the creation of a Government bank. After investigation and discussions with the Minister I submitted on November 14, 1951, a report recommending the creation of a Government bank to act as fiscal agent, to handle currency matters and to conduct economic research. Soon after the report was submitted the Minister stated that he was in full agreement with it and that he had recommended to Riyadh that the proposal be put into effect. I had recommended that the Government engage a qualified foreigner to organize and operate the bank. Learning that Mr. George A. Blowers of the International Monetary Fund might be available for this work and that he would be in Athens in February I arranged for the Minister to invite him to visit Saudi Arabia. He arrived in February and he and I spent several days in Riyadh where we conferred on this subject with the King, Crown Prince and Minister. One point raised in Riyadh was that in view of Islamic law the institution should not charge or receive interest. To meet this point a specific prohibition was included in the plan and the name was changed to "Monetary Agency". On returning to Jidda Mr. Blowers and I drafted a royal decree and a charter for the Agency. The draft charter embodied the main points in my report of November 14, 1951. The capital would be 500,000 gold sovereigns, about \$6 million. The Minister approved these documents and forwarded them to Riyadh where he hopes for early action. He has indicated a building where the Agency may be located in Jidda.

Final action on the plan has been delayed because of disagreement between the Minister and the Crown Prince whether the head office should be in Jidda or Riyadh. Delay in setting up the Agency hinders progress with the contemplated monetary reform and also with development of procedures for fiscal control.

3. The Finance Minister at the time of my arrival asked my views on currency improvement and particularly the introduction of the newly coined gold sovereign of which about a million had been coined in France. There had been a plan sponsored by the former manager of the Bank de l'Indochine to issue these coins on a bimetallic basis at a ratio of 40-1 to the full-weight silver riyal. I advised the Minister that such a plan of bimetallism would be impracticable as a basis for a sound reform, although with good fortune it might work for a while, and advised against any commitment to tie together the riyal and the new gold coin. I suggested means whereby the gold coin could be issued if desired without being tied to the riyal; but stated that I wished to give further study to the basic monetary problem. The Minister decided to take no action pending preparation of a complete monetary plan.

I made a full study of various possible types of reform. I rejected

various possible choices, namely, bimetallism (because the future ratio between gold and silver is sure to continue unstable); a silver standard (because there are no present or prospective national or international policies that give any confidence in silver's future stability as a monetary standard); the British gold sovereign (because the supply is limited, and the value affected by wide fluctuations and beyond Saudi Arabia's control); a sterling standard (because of the disadvantage of a link to the pound in view of existing uncertainties and trade and exchange controls); and, finally, the International Monetary Fund standard based on gold at \$35 per ounce (because a gold currency at that value would be drained away by pull of the free gold market, and the alternative, a managed paper currency redeemable in dollars at \$35 per ounce, would be subject to abuse).

I concluded by a process of elimination that, given the penchant of the people for metal currency and the unwisdom of a national paper currency the wisest choice would be a gold standard based on the new gold sovereign which should be linked to the dollar. It should be linked at a rate that would give it a value sufficiently above that of the fine gold content (worth \$8.24) to avoid any likelihood of the coin being drained away to the free gold markets, but not higher than necessary for that purpose. The rate should be definitely below the value of the British sovereign (now about \$12). Tentatively it should be around \$10, which corresponds to a free gold price of about \$42.50 per ounce compared with the free price which has ranged between about \$38 and \$40 since the IMF liberalized its attitude on free gold sales in September, 1951. It thus would be something of a novelty, a gold currency with a fiduciary element. The Government would buy the coins from the Agency at their monetary value and set aside as reserve in the Agency the excess over the value at \$35 per ounce, thus making possible ready convertibility.

The establishment of such a system would require the machinery of the proposed Monetary Agency. Once the Agency is established the reform could be accomplished in two stages: first, introduction of the new gold coin; and, second, the subsequent introduction of a system of convenient token silver and minor coins on a decimal basis. The silver coins would gradually be substituted for the riyal. I am awaiting comment from the Bureau of the Mint in Washington regarding certain technical matters relating to the choice of fineness and alloy for a new system of coins. The minor coins would be the existing qirsh which with a slight change in value could be tied to the gold coin at 1,000 qirsh per sovereign.

Since the riyal is the present main currency of the country, the reform would be conducted with careful regard to avoiding prejudice to holders of riyals, and the riyal would be kept as steady as possible in relation to the dollar and the new gold coin but without commitment to keep any fixed rate.

The outline of the currency plan has been discussed orally with the Minister and with the Assistant Deputy, Najib Bey Salha; and also in very general terms with the Crown Prince. They all indicated general agreement. I have not submitted any formal report pending action on the plan for a Monetary Agency. The elements of a report, however, are in hand and can be submitted without much delay at the right time.

4. Meanwhile I have advised the Government to keep the riyal as steady as possible in relation to the dollar. Last fall the Government wished to place a large order for new riyals in Mexico; but I persuaded

them to limit the order to 25 million, feeling that an immediate order of this number would be adequate to check any tendency of the rial to increase in value. Since the middle of December the rial has been quite steady in value at about SR3.75 per dollar, with fluctuations of about 1% either way. This has been made possible by favorable basic conditions, and by Government acceptance of my recommendation to refrain from issuing SR20 million of the new rials; and by the Government on my recommendation advancing the purchase of its rial requirements on one occasion when the rial showed signs of weakening.

It is not practicable for the Government to do much to regulate the value of the British sovereign, which has an international market and is easily smuggled. I have recommended, however, that the Government buy sovereigns locally in times of local weakness, and import them when the sovereign locally is strong.

5. SAG expressed the desire to purchase the new silver rials to be ordered from Mexico with the help of the stabilization fund under the agreement of May 27, 1950, with the United States. The Treasury concurred in my recommendation that the agreement be interpreted to permit doing this. \$4,500,000 of the fund has been so used. The availability of the fund for this purpose has made it easier for the Government to accept my recommendation to withhold rials from issuance and thus to accomplish the object of stabilization. SAG has requested extension of the stabilization agreement for two years from the expiration date, May 27, 1952, with an amendment permitting use of the fund to stabilize the value of silver coins (if issued) other than the rial.

Arthur N. Young
Financial Adviser

Confidential
Restricted

1+8

AC Beirut + Treasury
hook 2 Aug 1952
of Arthur N. Young and George A. Blowers at Riyadh and Jidda

Memorandum of conversations re establishment
of ^aSaudi Arabian Financial Agency, February 15-24,
1952, ~~at Riyadh and Jidda.~~

"Monetary Agency"

At the invitation of the Saudi Arabian Government Minister of Finance, Mr. George A. Blowers of the International Monetary Fund, arrived in Jidda February 14 from Athens where he ^{had business} ~~was visiting~~ for the Fund. ^{He came by permission of the Fund.} At the Minister's invitation, Mr. Blowers and I flew to Riyadh ^{to meet him} on February 15. The Minister invited us to lunch ~~on~~. In the conversations before and after luncheon, he stated that all the important people in Riyadh, from the King down, wished the institution to be set up on the lines of my plan. In some quarters, however, there was concern about the possibility that the institution would charge or receive interest, which, he pointed out, would be contrary to the Islamic law. He stated that the King and the Crown Prince might question me about this. He wanted me to reassure them. He said further that if they did not bring up the subject, he wished me to do so.

I stated that I fully understood the Islamic view about interest; that I had never contemplated that the institution should do anything ~~such as this~~ in disregard of Islamic law; that the charter could ^{specifically} ~~sub-~~sequently state that the institution would neither pay nor receive interest; and that I would be happy to make this quite clear to His Majesty and the Crown Prince.

Shaikh Abdullah further stated that the name of the institution had caused some concern, because "bank" was associated with interest. I stated that the institution could be called "Financial Agency",

if preferred. Shaikh Abdullah believed this would be desirable. ^(It was later decided to call it "Monetary Agency.")

The same afternoon Mr. Blowers and I had an audience with His Majesty. The audience was intended to be private, but before we

arrived, the Shaikh of Qatar, who was the King's guest, came into the court room. Because of his being present, the King did not bring up any item of substantial business but merely engaged in some general conversation with us. The interpreter, Abdullah Teziki^r (a^a supervisor of Aramco for S/A/G. and a graduate of Texas A & M), stated that the King told the Shaikh that he had asked the American Government for ~~him to have~~ the help of some financial experts, and that "Americans are very good in matters of accounting and currency". The King did not in any way refer to the specific object of our call. The King closed the interview by saying that he wished to see us further privately.

That evening we attended a state dinner given by the Crown Prince in honor of the Shaikh of Qatar. After the dinner, the Crown Prince said to me that he wished to see us the next day for a discussion. After the dinner, the Crown Prince's advisor, Jemal Hussein, had a short discussion with us. He said that he and the others there thought the general plan of the institution was good, and that if the point about interest were covered, there should be no objections of consequence.

On the following day (February 16), Mr. Blowers and I spent the morning going over in detail the plan of the proposed institution as per my report of November 14, 1951, and found ourselves in complete agreement. Also, we discussed at length ^{my} plan for currency reform, and likewise found ourselves in agreement, subject to further consideration of the value of the principal unit. Mr. Blowers inclined to prefer a unit similar in value to the American dollar instead of the unit of about 20 cents I have contemplated. He feels that there is a long-term tendency for the value of units to shrink, and that for that reason a unit around 20 cents might be too small. The up-shot of our discussion was that the eventual decision would be

influenced considerably by the reactions of the ~~proper~~ officials of the government and by the choice of ^{an} Arabic name for the new unit, if the general plan were approved. Mr. Blowers raised ^a ~~the~~ question as to possible issue of deposit certificates in order to meet the needs for paper currency, stating that these had ^{proven} ~~xxxxxxx~~ acceptable and popular in Ethiopia. I pointed out the dangers and fears here about any form of paper currency, and Mr. Blowers agreed that the subject should be left for later consideration after the institution had accomplished its task of reorganizing the currency. Also, I pointed out that if a unit ^{conveniently} related to the dollar were chosen, American paper money might become an element in the circulation. *We also agreed that, pending completion*

of a currency reform, everything reasonably practicable should be done to stabilize the rial and protect its value.
We ^{Agency} ~~lunched~~ with the Crown Prince, and after luncheon had a private discussion of the ~~bank~~ with him. He stated that the plan had met with general acceptance in Riyadh, but that there were four points which he would stress:

(1). The head office should be in Riyadh.

(2). The institution should keep Riyadh fully informed of the government's financial operations and position, and should keep accounts showing the revenue receipts under four main heads: Aramco, the Haj, Customs, and Other Taxes. The institution should receive all revenue and control all disbursements. The government should have monthly reports. The government would look to me to see to it that all this was properly done.

(3). The ^{institution} ~~organization~~ should not pay interest, and must have full regard to the Islamic law.

(4). The general plan of operation and the ^{main} ~~number~~ personnel employed should be approved by Riyadh.

The Crown Prince went on to say that everyone felt that the monetary situation ^{ought} ~~had~~ to be improved, and that the losses and inconvenience resulting from monetary fluctuations were causing concern. The

government wanted a stable currency. He stated further that the government was anxious for better control of receipts and payments.

I stated that his comments showed that he clearly appreciated the ^{needs of the country and the} ~~main work~~ ^{main work} ~~factore~~ of the proposed institution, namely, to aid in better control of the public finances and to improve the currency situation. I expressed gratification that the government was disposed to take this important action. The organization, I stated, would, of course, keep such accounts as the government directed. As to interest, I said that I well understood the Islamic law on the subject, and that it had never been intended that the institution pay or receive interest.

A prohibition on this point could be included in the decree and the charter. ^{I did not comment on the location of the head office, other than to say that of course the institution should keep the Government fully informed of its operations.} Later in the afternoon we were summoned to the palace to see His Majesty. We were met by the Finance Minister, who stated that a further point had arisen with regard to the name. Some people felt that even the name "Finance ^{ial} agency" suggested interest and transactions inconsistent with the spirit of Islamic law. I explained that the institution was to be a service agency not intended to make a profit, and that another suitable name certainly could be found.

During the discussion, the question arose of the location of the head office. In talking with the Crown Prince, I had refrained from ^{specifically} commenting on this point. The Finance ~~Min~~ Minister insisted, ^{as I had anticipated,} that the head office be at Jidda. I told him that obviously the main operations should be at Jidda; and that preferably the head office should be there. I added that a similar question had arisen in other countries where there was pressure to have the head office of the central bank in the capitol. For example, in China, the head office, ^{of the Central Bank had} ~~was~~ to be moved ~~to~~ ^{to} Nanking, although the actual headquarters continued to be Shanghai. I said that I thought if necessary he could agree to put up a sign "Head Office" in Riyadh, and that certain records could be kept there,

and meetings held there; ~~if necessary~~; but that the chief operations clearly should be at Jidda. The Minister subsequently asked me for a letter on this subject, and I wrote him as per the attached copy.

We did not see His Majesty because the Shaikh of Qatar again came in just when we were expected. They had a long talk and the King excused himself because he felt tired. A little later Shaikh Abdullah went to the King's private quarters and had a talk he considered satisfactory ^{stating our views and} covering the subjects we intended to discuss.

After returning to Jidda the next day, February 17, the Minister asked me to draw a copy of a proposed royal decree authorizing the ~~Agency~~ ^{Agency} in general terms. I did so, and my draft was accepted with changes to stress "strengthening" the currency rather than ~~stressing~~ currency readjustment; and broadening the idea of interest to "profit". *Shaikh Abdullah does not wish to introduce the subject of currency plans until*
The Minister further stated he wished to have a document setting forth all of the important elements of the plan so that he could fully inform Riyadh. On February 18, Mr. Blowers and I drafted a brief charter and had it translated into Arabic. On February 19, we went over this draft with the Minister and Najib Bey Salha, and they seemed generally satisfied. They said, however, that the name "Financial Agency" still caused some difficulty. They suggested "Currency Institute", to correspond with the Arabic wording they contemplated. I explained that it could not be called "Institute" in English, and they finally accepted "Monetary Agency", ^{for the English version of the name.} They referred the draft charter to the Egyptian legal advisor, Mr. Husni Khairalla, to consider what Arabic legal wording would be proper.

The Agency is cleared.

I recommended the Minister that he engage Mr. Blowers to organize and operate the Agency. The Minister said that he wanted me to do that. I explained that my functions were more general, in relation to the entire field of financial reorganization. Further,

I stated that while I had had considerable banking experience, *I had never actually organized a bank, whereas* Mr. Blowers had organized successfully similar institutions in Liberia and Ethiopia, and that I strongly urged that he be engaged. The Minister then stated that he considered it my general responsibility, and indicated that on that understanding he would be disposed to accept anyone I recommended. I did not press the subject further at that stage, but gathered that he is favorably disposed to engaging Mr. Blowers.

Mr. Blowers had previously indicated to me the conditions on which he might be willing to come. He stated that first he would have to be released by the International Monetary Fund, which he believed could be arranged so that he could come here after a few weeks. He would be willing to come on the basis of a letter from the Minister appointing him as Governor, without a formal contract. He would wish to have a house, a car, travel expenses, exemption ^{SA} from taxes, and a salary of \$25, ⁰⁰⁰ ~~thousand~~ yearly. Further, he stated that if he should become liable to American income tax, ~~such~~ ^{for an extended time} by having to be in the United States on Agency business, he would ^{but he did not anticipate such a situation.} expect the Agency to pay such tax; I summarized these conditions to Najib without bringing the matter to a head pending ~~the~~ a firm decision to create the Agency. I said to Najib that the salary did not seem excessive, and that I had gotten a similar salary in China. (Mr. Blowers is now getting \$15, ⁰⁰⁰ ~~thousand~~ from the International Monetary Fund, and this is free of American taxation.)

Further, we discussed with the Minister and Najib a building for the Agency in Jidda. They said that a centrally located building,

near the Ministry of Finance and the banks, that had been planned for an exposition, but never occupied, would be available. Mr. Blowers and I made a brief external inspection, the key not being available, and felt that the building could be made suitable. Mr. Blowers will look into the question of vault doors so that they may be ordered and obtained as promptly as possible if the Agency is to be created.

On February 19, Mr. Blowers left for Athens.

On February 24, Najib stated that the draft decree and charter, with no material changes, were being sent to Riyadh on February 25 by hand of a man who was instructed to seek royal approval and issuance of the decree. Najib believed these would be accepted.

Arthur H. Young

April 7, 1952

PUBLIC FINANCES: Report for the period July 12, 1951 to March 31, 1952

1. So far it has not been possible to obtain from SAG much data of actual receipts and expenditures. There is a prospect of obtaining these as the work on budget and accounting progresses. Meanwhile, however, Aramco has supplied confidentially full data regarding its payments to SAG as has the Saudi Arabian Mining Syndicate. These, with partial data received from the customs and with regard to the Haj, give a fairly good idea of receipts. Total receipts in 1951 were about \$160 million, of which \$135 million came from Aramco including \$25 million discounted from 1952 income tax. For 1952 receipts could easily reach \$200 million excluding this \$25 million, and might be even larger if the oil business continues good. As to expenditures, practically all the receipts in 1951 were spent, together with the aforementioned proceeds of discount of 1952 income tax payments by Aramco. Unfortunately a far from adequate share of the excellent receipts was used constructively.

2. Last fall when the Government faced a financial crisis due to having spent all the current receipts and much of the Aramco receipts due in succeeding months, I suggested to Aramco that it work out with the Government a revision of the payments due for income tax so that they would be made in substantially equal monthly installments, along with royalties. This procedure was embodied in the agreement recently concluded at Riyadh. The plan was devised to equalize roughly the monthly payments in 1952 without including the sums discounted and spent in 1951, and similarly to equalize payments in succeeding years. So far the system is working well. The only payment now spent and not yet due is \$5 million of income tax due in June, 1952--which has already been allowed for in calculating the equal monthly payments. While it is too early to reach a firm conclusion, there is reason to hope that the new arrangement will help SAG to live within its excellent revenues.

3. On every practical occasion I have urged the Government to live well within its revenue at this time of peak receipts, and to set aside large funds to be used for (a) economic development; (b) currency reform; and (c) as fiscal reserves to be built up with a view to the day when there may be a serious and perhaps unexpected slump in the receipts from oil. I have cited the case of Venezuela which has built up its reserves from about \$30 million a dozen years ago to nearly \$400 million at present. The Minister of Finance has stated that he is ready to provide the capital for the proposed Monetary Agency equivalent to about \$4 million, the amount due to be paid in before the Agency begins business; and also to provide currency reserves and funds for economic development, particularly the proposed new railway.

Arthur N. Young
Financial Advisor

Confidential

+4
single page

April 6, 1952

PUBLIC FINANCES: Report for the period July 12, 1951,
to March 31, 1952

1. So far it has not been possible to obtain from ~~the~~ SAG much data of actual receipts and expenditures. ^{There is a prospect of} ~~It is hoped to~~ obtain ^{my} these as the work on budget and accounting progresses.

Meanwhile, however, Aramco has supplied ^{confidentially} full data regarding its payments ^{& SAG} as has the Saudi Arabian Mining Syndicate. These, with ^{received} partial data from the customs and with regard to the Haj, give

a fairly good idea of receipts. ^{(X) Insert} As to expenditures, practically all the receipts ^{in 1951 were} ~~have been~~ spent, together with the ^{prementioned} proceeds of

discount of ¹⁹⁵² ~~advance~~ income tax payments by Aramco for ~~the pay-~~ ^{unfortunately the} ~~ments due in March and June, 1952.~~ ^{a far from adequate share of the excellent receipts was} ~~used constructively.~~

2. Last fall when the Government faced a financial crisis due to having spent all the current receipts and much of the Aramco receipts due in succeeding months, I suggested to Aramco that it work out with the Government a revision of the payments

due for income tax so that they would be made in substantially ^{monthly} equal installments, ^{like royalties along with royalties.} This procedure was ~~adopted and~~ ^{embodied in the} agreement

recently concluded at Riyadh. The plan was devised to equalize ^{roughly the} ~~substantial~~ ^{monthly} payments in 1952 without including the sums dis- ~~counted and spent in 1951,~~ ^{and succeeding years, and for 1952} and similarly to equalize payments in succeeding years. So far the system is working well.

~~The only advance payment received and spent to date is~~ ^{now spent and not yet due is}

\$5 million of income tax due in June, 1952--which has already been allowed for in calculating the equal monthly payments.

While it is too early to reach a firm conclusion, there is reason to hope that the new arrangement will help SAG to live within its excellent revenues.

(X)

Total receipts in 1951 were about \$160 million, of which \$135 million came from Aramco including \$25 million discounted from 1952 income tax. For 1952 receipts could easily reach \$200 million excluding this \$25 million, and might be even larger if the oil business continues good.

3. On every practical occasion I have urged the Government to live well within its revenue at this time of peak receipts, and to set aside ^{large funds} ~~reserves~~ to be used for (a) economic development; (b) currency reform; and (c) as fiscal reserves to be built up with a view to the day when there may be a serious and perhaps unexpected slump in the receipts from oil, ~~revenue~~. I have cited the case of Venezuela which has built up its reserves from about \$³⁰~~40~~ million a dozen years ago to nearly

\$400 million at present. The Minister of Finance has stated that he is ^{ready} ~~suggested~~ to ^{provide the} ~~allocate~~ currency reserves and capital for the proposed Monetary Agency ^{of approximately} ~~about~~ \$4 million, the ^{amount due} ~~paid~~ ~~capital~~ to be paid in before the proposed ~~Monetary~~ Agency begins business; and also to provide currency reserves and funds for economic development, particularly the proposed new railway.

Arthur N. Young
Financial Advisor

April 4, 1952

CURRENCY AND BANKING: Report for the period July 12, 1951 to March 31, 1952.

1. I have ~~not~~ been able to concentrate on this field and substantially to complete the planning because delay in arrival of the members of the Financial Mission made it ~~inadvisable~~ ^{impracticable} to do much in their respective fields of work. ~~Also~~ Non-arrival of a secretary until February ^{however,} handicapped the work and I had to rely on part-time local American help. *This report outlines what has been done and the present status. Further information is available in various*

2. The Finance Minister at the time of my first call referred to his interest in the creation of a Government bank. After investigation and discussions with the Minister I submitted on November 14, 1951, a report recommending the creation of a Government bank to act as fiscal agent, to handle currency matters and to conduct economic research. Soon after the report was submitted the Minister stated that he was in full agreement with it and that he had recommended to Riyadh that the proposal be put into effect. I had recommended that the Government engage a qualified foreigner to organize and operate the bank. Learning that Mr. George A. Blowers of the International Monetary Fund might be available ^{for this work} and that he would be in Athens in February I arranged for the Minister to invite him to visit Saudi Arabia. He arrived in February and spent several days in ~~Jidda~~ ^{he and I} ~~and~~ Riyadh where we conferred on this subject. ^{with the King, Crown Prince and Minister.} ~~The main change~~ ^{One point raised in} ~~in the plan desired by Riyadh was to make sure that~~ ^{in view of Islamic Law} the institution ^{should} ~~would~~ not charge or receive interest. ~~Action in Riyadh~~

Final action on the plan
has been delayed because of disagreement between the Minister and the Crown Prince whether the head office should be in Jidda or Riyadh. ^{To meet this point} A specific prohibition was included in the plan

of the Embassy as well as in informal correspondence with various officers in Washington

On returning to Jidda

and the name was changed to "Monetary Agency". Mr. Blowers

embodied the main points in my report of November 14, 1951. The capital would be 500,000 gold sovereigns about \$6 million
and I drafted a royal decree and ^a charter for the Agency. The Minister approved these ^{documents} and forwarded them to Riyadh where he hopes for early action. He has indicated a building where the

Agency may be located in Jidda.

no delay in setting up the Agency hinders progress with the contingency plan
3. The Finance Minister at the time of my arrival asked

my views on currency improvement and particularly the introduction of the newly coined gold sovereign of which about a million had been coined in France. There had been a plan sponsored by the former manager of the Bank de l'Indochine to issue these coins on a bi-metallic basis at ^{a ratio of} 40-1 ~~with~~ the free

full-weight silver riyal. ~~After studying the problem~~ I advised the

as a basis for a sound reform,
Minister that such a plan of bi-metallism would be impracticable, although with good fortune it might work for a while, I sug-

gested means whereby the gold coin could be issued if desired

without being tied to the riyal; but stated that I wished to

give further study to the basic monetary problem. The Min-

ister decided to take no action pending ^{preparation} ~~recommendation~~ of ^a the

complete monetary plan. *I made a* ~~After~~ full study of various possible

types of reform, *by a process of elimination* I concluded that, given the penchant of the

people for metal currency and the unwisdom of a national paper

currency, the wisest choice would be a gold standard based on

the new gold sovereign which should be ^{linked} ~~tied~~ to the dollar. I

various rejected ~~the other~~ possible choices, namely, bi-metallism

(because the future ratio between gold and silver is ^{sure} ~~certain~~

to continue unstable); a silver standard (because there are

no present or prospective national or international policies

that give any confidence in silver's future stability as a

monetary standard); the British gold sovereign (because the

monetary reform and also with development of procedures for fiscal control.

supply is limited, and ^{the value} affected by wide fluctuations); a disadvantage
sterling standard (because of the / of a link to the pound
^{in view of} ~~with~~ existing uncertainties and ^{trade and exchange} controls); and, finally, the
International Monetary Fund standard based on gold at ~~thirty-~~
^{\$35} ~~five dollars~~ per ounce (because a gold currency at that value
would be drained away by pull of the free gold market, and
the alternative, a ^{managed} paper currency redeemable in dollars at
^{\$35} ~~thirty five dollars~~ per ounce, would be subject to abuse).

There remained, by a process of elimination, pegging the
^{no it should be linked} ~~new gold sovereign~~ at a rate ~~in dollars~~ that would give it a
value sufficiently above that of the fine gold content (worth
\$8.24) to avoid ^{any likelihood of} the coin being drained away to the free gold
^{but not higher than necessary for that purpose.} markets. ^{(X) Insert} The establishment of such a system would require
^{the} machinery ~~namely~~ ^{of} the proposed Monetary Agency. Once the
Agency is established the reforms could be accomplished in two
stages: first, introduction of the new gold coin; and, second,
the subsequent introduction of a system of convenient token
silver and minor coins on a decimal basis. The silver coins
would gradually be substituted for the riyal. I am awaiting
comment from the Bureau of the Mint in Washington regarding
certain technical matters relating to the choice of fineness
and alloy for a new system of coins. The minor coins would be
the existing ^{qirsh} ~~minor coins~~ which with a slight change in value
could be tied to the gold coin at 1,000 qirsh per sovereign.

Since the riyal is the present main currency of the coun-
try, the reform would be conducted with careful regard to
avoiding prejudice to holders of riyals, and the riyal would
be kept as steady as possible in relation to the dollar and
the new gold coin but without commitment to keep any fixed
rate. ~~26~~

(X)

Not The rate should be definitely below the value of the British sovereign (about ^{now} \$12). Tentatively it

should be around \$10, which corresponds to a free gold price of about \$42.50 per ~~the~~ ounce & compared with the ~~present~~ free price of which has ranged between about \$38 and \$40 since the

IMF liberalized its attitude on free gold sales in September, 1951. It thus would be something of a

novelty, a gold currency with a fiduciary element.

The Government would buy the coins from the Agency at their monetary value and set aside as reserve in the Agency the excess over the value at \$35 per ounce, thus making possible ready convertibility.

made possible by favorable basic conditions, and by

rate.

The ~~general~~ outline of the currency plan has been discussed orally with the Minister and with the Assistant Deputy, Najib Bey Salha; and also in very general terms with the Crown Prince. They all indicated general agreement. I have not submitted any formal report pending action on the plan for a Monetary Agency. The elements of a report, however, are in hand and can be submitted without much delay at the right time.

4. Meanwhile I have advised the Government to keep the riyal as steady as possible in relation to the dollar. Last fall the Government wished to place a large order for new riyals in Mexico; but I persuaded them to limit the order to 25 million, feeling that ^{an immediate order} this number would ~~probably~~ be adequate to check any tendency of the riyal to increase in value. Since the middle of December the riyal has been quite steady in value, ^{with fluctuations of about 1% either way.} at about SR3.75 per dollar, [^] This has been ~~accomplished by Gov-~~ ^{ernment} acceptance of my recommendation to refrain from issuing SR 20 million of the new riyals; and by the Government on my recommendation advancing the purchase of its riyal requirements ^{on one occasion} without any question when the riyal showed signs of weakening.

It is not practicable for the Government to do much to regulate the value of the British sovereign, which has an international market and is easily smuggled. I have recommended, however, that the Government buy sovereigns locally in times of local weakness, and import them when the sovereign locally is strong.

5. SAG expressed the desire to purchase the new silver riyals to be ordered from Mexico with the help of the stabilization fund under the agreement of May 27, 1950, ^{with the United States.} The Treasury

concurred in my recommendation that the agreement be interpreted to permit doing this. \$4,500,000 of the fund has been so used. The availability of the fund for this purpose has made it easier for the Government to accept my recommendation to withhold riyals from issuance and thus to accomplish the object of stabilization. SAG^{has} requested extension of the stabilization agreement for two years from the expiration date, May 27, 1952, with ^{an} ~~the~~ amendment permitting use of the fund to stabilize ^{the} value of silver coins (if issued) other than the riyal.

Arthur N. Young

Financial Advisor

$$? \$ = 105 \quad ? \$ = 1200$$

$$2354 = 3450 \quad 1200 = 4401$$

$$383 = 1 \quad 383 = 1$$

$$? \$ = \$1$$

$$64.25 = 11.95$$

903

18.5

9825

$$? \$ = 103$$

$$375 = 889.75 \quad 44.5$$

$$64.25 = 11.95$$

2015

$$22.1 \quad 1200$$

$$2354 = 64.5$$

$$6425 = 1195$$

$$26 \frac{2}{3}$$

$$28.7$$

INFORMATION RE
PREPARATION OF REPORTS

FILE
(1)
MONTHLY OPERATIONS
REPORT
FOR: MR. DUNAWAY

Jidda, Saudi Arabia

June 3, 1952

MEMORANDUM TO: Dr. Arthur N. Young, Chief,
Financial Mission
Dr. Glen F. Brown, Chief,
Natural Resources Field Group

FROM: Mr. Edward Betzig

RE: Monthly Operations Report
(Refer: Foreign Service Point 4
Circular No.6, May 15, 1952)

The circular referred to above establishes the principles to be followed in the preparation and submission of a monthly operating report. It does not affect the responsibility of the Country Director for prompt transmittal to Washington of technical and special reports required by TCA and other agencies having a responsibility for the program.

In order to comply with this circular, it is requested that each Chief of a field party submit to the Director a brief summary of monthly operations by the 25th day of each month. (For the May report, it is requested that a report be submitted by June 15.)

The report should briefly cover the following matters:

- a) Significant developments during the reporting month in the particular field group's area. Problems and difficulties encountered should be noted. Note specific measures of accomplishments as number of wells drilled, subjects being studied, etc.
- b) Outline any political, economic, and social conditions and developments during the month affecting the field group's operation. Include any legislative developments affecting the field group.

c) List

TCA-Organization
TCA-SA
Monthly Operations Report
Memo to Young & Brown
June 3

June 3, 1952

- c) List new requests for new projects or expansion of going projects, indicating estimated relative contribution of U. S. and host government.
- d) List any developments in trainee programs, problem of selection, etc.
- e) Progress in training local personnel to take over program operation.

If you have any questions or comments concerning this report, I will be glad to discuss them with you.

Edward Betzig
Assistant Program Officer

cc: (for info)
Stacy, J., E.
Kennedy
Dunaway



UNITED STATES OF AMERICA
TECHNICAL COOPERATION ADMINISTRATION

Jidda, Saudi Arabia

June 3, 1952

MEMORANDUM TO: Dr. Arthur N. Young, Chief,
Financial Mission
Dr. Glen F. Brown, Chief,
Natural Resources Field Group

FROM: Mr. Edward Betzig

RE: Monthly Operations Report
(Refer: Foreign Service Point 4
Circular No.6, May 15, 1952)

The circular referred to above establishes the principles to be followed in the preparation and submission of a monthly operating report. It does not affect the responsibility of the Country Director for prompt transmittal to Washington of technical and special reports required by TCA and other agencies having a responsibility for the program.

In order to comply with this circular, it is requested that each Chief of a field party submit to the Director a brief summary of monthly operations by the 25th day of each month. (For the May report, it is requested that a report be submitted by June 15.)

The report should briefly cover the following matters:

- a) Significant developments during the reporting month in the particular field group's area. Problems and difficulties encountered should be noted. Note specific measures of accomplishments as number of wells drilled, subjects being studied, etc.
- b) Outline any political, economic, and social conditions and developments during the month affecting the field group's operation. Include any legislative developments affecting the field group.

c) List

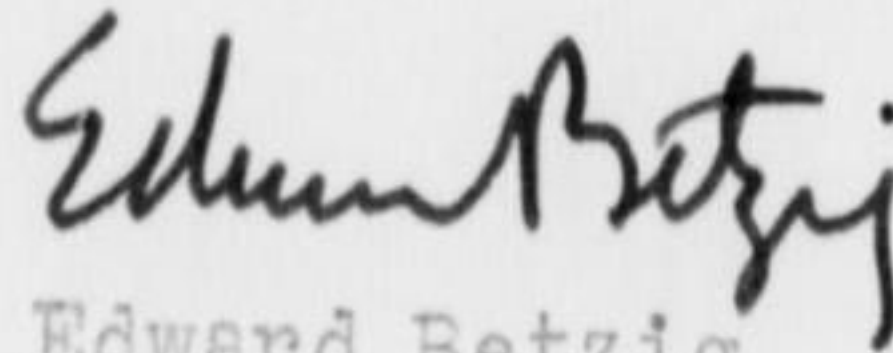
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2

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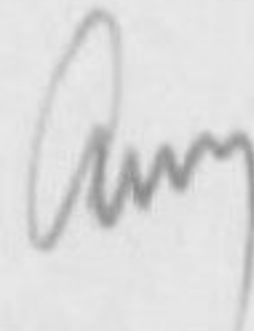
June 25, 1952

MEMORANDUM FOR: Mr. Dunaway
Mr. Stacy
Mr. Kennedy

Yesterday I talked with Dr. Stratton about reports. Washington requires monthly reports. These can be brief, like those prepared for the current month.

It will also be helpful to have quarterly reports. These can be similar to those prepared for the period ending March 31, 1952, dealing systematically with the work accomplished in the quarter, the problems met, and any comment that may be deemed advisable regarding the status and prospect of the work.

It is desirable that these reports be completed during the first ten days of the month following the close of the quarter. Five copies of each report should be prepared, one to be retained by the officer preparing it.



Arthur N. Young

cc to Dr. Stratton



UNITED STATES OF AMERICA
TECHNICAL COOPERATION ADMINISTRATION

Jidda, Saudi Arabia
November 12, 1952

Mr. Dunaway

MEMORANDUM TO: Field Chiefs

FROM: Edward Betzig *EB*
Acting Country Director

RE: Submission of Reports for Translation

To facilitate the typing of reports for submission for translation, it is suggested that the following routine be used:

1. Original on plain white bond paper
2. Approximately five (5) carbon copies:

Original and one copy to Mr. Hussein's office	2
One copy for Chron file	1
One copy for appropriate subject file	1
One copy, if required, for Embassy use	1
One copy, if required, for Washington	<u>1</u>

6

If the report is sufficiently lengthy and requires the services of two or more translators, it is a good idea to provide Mr. Hussein with extra copies to expedite the translation.

It is requested that material prepared for translation be routed to Mr. Hussein through Mr. Betzig in order that a firm record may be kept on the whereabouts of this material.



John Dunaway

UNITED STATES OF AMERICA
TECHNICAL COOPERATION ADMINISTRATION

Jidda, Saudi Arabia

October 20, 1952.

MEMORANDUM TO: TCA Field Chiefs

FROM: Edward Betzig

RE: Monthly Operations Report

It would be appreciated if all monthly reports were submitted to this office by the 25th of each month. The form in which the report is to be submitted is outlined in office memo to Field Chiefs dated June 3.

cc: Glen Brown
John Dunaway
Wm J. Edens
E. F. Sinclair
Gerald Ferguson (Pending)
R. Dolly (Pending)

DUNAWAY

REPORTS - MONTHLY REPORTS

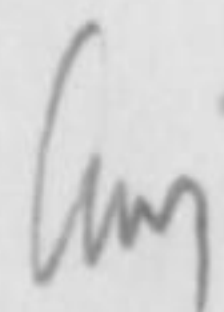
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Arthur N. Young

cc to Dr. Stratton

April 30, 1952

SAUDI ARABIAN MONETARY AGENCY

Conversations in Riyadh with the Minister of Finance and
Assistant Deputy Minister, April 23-25

At the time of leaving for Riyadh with Najib he stated that he had just received word that the two decrees creating the Agency and approving its charter had just been issued.

After arriving in Riyadh we called on the Minister. We had copies of the decrees which he gave me. Najib stated that they were not materially changed from the draft I had submitted in February. The only important change was to increase the membership of the Board of Directors from three to five. The Minister further stated that possibly there should be six instead of five. He asked my opinion as to who the members ought to be. We mentioned the possible desirability of including Kaaki and one or perhaps two representatives of the foreign banks. I stated that I wished to consider the subject and that I would discuss it with him the next day.

I then said that I was gratified that the Minister had sent word to me that he wanted to engage Mr. Blowers and said I had already sent Mr. Blowers a preliminary telegram. I then handed the Minister a draft letter to Mr. Blowers based upon Mr. Blowers' letter of February 18 to me. Also I submitted an Arabic translation. A few days before, when I got word re engaging Mr. Blowers, I had given Najib a copy of Blowers' letter to me dated February 18, 1952, containing these terms. Apparently Najib had discussed this with the Minister. When I submitted the draft he said that everything was O.K. except that he did not wish to have anything to do with the U.S. income tax. If the tax were changed, as it might be, that would be a matter between American citizens and their Government. Also U.S. rates were high and he had no idea what sort of liability he might be assuming. He thought that it would not be necessary for Blowers to be in the United States on Agency business long enough to become liable to tax; and that if this case arose it might be possible for someone else to attend to the Agency business there. Since the Minister and Najib had agreed to all of Mr. Blowers' terms except re tax, and as they were quite firm on this point, I said I would forward a revised letter to him. Najib and I then revised the letter as desired by the Minister, and the Minister signed the Arabic original and a duplicate. I stated that I would communicate with Mr. Blowers by telegraph and forward the copies by mail and that I hoped he would accept.

I asked the Minister whether he was ready to provide the 500,000 sovereigns as capital. He stated that he would turn over to the Agency as capital that amount of the new sovereigns and also the remaining 500,000, together with SR16 million which were on hand, these latter sovereigns and riyals to be issued through the Agency.

As to the building, he stated that unfortunately the Egyptians had not yet agreed to release it. He said that SAG is continuing to press them to do so, and hope to get the building soon, but could not indicate when this might result. Since after possession is obtained the remodelling would take some time, the Minister suggested making available at once a building immediately to the north of Gallatly-Hankey and Company which is

centrally located. This building is now occupied by offices of the Ministry of Finance which could be transferred to another location. Najib would send instructions to Mr. Fahoum to go there with me and with a representative of Michael Baker, Inc. who could do the necessary remodelling.

We discussed the question of vaults. We shall look into that when we inspect the building. The Minister said that we could order from Beirut, Cairo or London such safes as might be necessary for the Agency.

The Minister remarked that he hoped the Agency would obtain the full confidence of the community and that in time other banks and merchants would deposit their money there. (I made no comment on this since it could not be done under the charter, but presumably the Agency in due course would become a center for bank clearing and hold bank funds, but probably not the funds of the public, and the charter then could be changed accordingly).

The Minister raised the question of correspondents for the Agency. He desired that the Agency make use of banks that in the past had given good service to the Ministry and mentioned particularly the Chase Bank, Guaranty Trust Company of New York, the Netherlands Trading Society and the Bank Misr of Cairo. I stated that certainly the Agency should use these organizations, and would take up the whole subject with Mr. Blowers. The Agency might also wish to appoint others and I mentioned that Mr. Blowers had said he had connections with another leading New York bank which he thought might also serve as correspondent. I mentioned also the need for correspondents in London. The Minister referred to the intention of the Eastern Bank to establish a branch in Dammam and thought that maybe they could be correspondents. I stated that Mr. Blowers and I would consider this entire matter carefully and submit to him our recommendations.

The Minister referred to the Government's gold and silver mine located about half-way between Jidda and Riyadh. He said that there should be production within two or three months and he wanted the Agency to take charge of the refining and handling of the gold and silver produced. He asked me to discuss the subject with Mr. Karl Peters, who is in charge of the mine. I stated that I would do so upon returning to Jidda. Najib gave me a letter to Mr. Peters.

Also the Minister referred to the possible creation of a mint in Jidda. I stated that I would study this question and let him have my views later, intimating that there might be difficulties.

I stated also that last February when the charter was drafted I had made a revision of my preliminary report on creation of the Agency. I suggested that it would be helpful if the report were made available to those interested in order to help them to understand what the Agency's work was to be. I stated that as soon as the revised report is ready in Arabic translation I would submit it to the Minister. He stated that he was agreeable in principle to such issue of the report.

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with the U.S. dollar. I did not mention a figure, stating that I would submit a definite recommendation on this point well before the Agency is ready to issue the coin. The Minister indicated agreement, this was done he should be regarded as the choice of all of the banks and not a

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Arthur N. Young

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On calling upon His Majesty on April 24 we found him in excellent spirits and much better health apparently than on previous occasions when I had seen him. In response to my inquiry about his health, he stated, "I am sure I am stronger than you are"! I told His Majesty that I thought that the Minister had taken a most desirable and important initiative in proposing to create the Agency; that I was much gratified that His Majesty had sanctioned it; that I had been very glad to cooperate in this matter; and that I felt that the Agency could accomplish a great deal for improvement of the monetary situation and the handling of public receipts and payments. I assured His Majesty that it had always been intended that the Agency should operate in complete accord with the Islamic law in accordance with what I knew to be His Majesty's strong wish. His Majesty then spoke with deep feeling about the Islamic law and its virtues. Finally he voiced appreciation of the helpful attitude of the American Government in these matters and of my part in them.

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